

Food Industry

In Focus



*Leading Independent North American Financial Advisor
to the Food & Agriculture Sector*

Q2 2024 HIGHLIGHTS AND TRENDS

- ▶ See inside for useful trends in the latest earnings, stock prices and M&A activity among food companies in North America
- ▶ Companies and private equity funds turn to share deals and mergers to execute M&A amid a tight capital environment
- ▶ M&A activity in the highly fragmented bakery segment remains hot with little signs of slowing down any time soon
- ▶ Select ingredient and commodity handling companies with strong balance sheets execute share buyback programs signifying limited alternative organic growth projects or M&A targets

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1 Share Deals and Mergers, Because Capital is Scarce

- Its hard to notice in the headlines but even some of the bigger private equity backed food platforms are deciding to merge or acquire with shares rather than a sale for cash.
- Two water businesses did that recently with the combination of BlueTriton and Primo Water. A couple of grass-fed dairy businesses did the same with the combination of Neutral Foods and Zeal Creamery just to name a couple.

What it Means

Smaller, founder owned businesses can do the same. There are serious benefits to scale in food and not having to raise and pay cash to get that scale can help lots of businesses out there.

2 Bakery and Beverage M&A is Trendy

- The past quarter saw a lot of bakery and beverage deals, many we profile in the report. Coincidence?
- There's something to be said on "striking while the iron is hot". The dynamics are favourable in bakery and beverage right now so deals are happening. Both industries are "hungry" for growth and acquisition is the way to get it.

What it Means

Whatever the category, there are lots of new things happening. Being healthy and plant-based goes a long way and though growth capital is tough in this market, acquisition activity is still going strong.

3 Share Buybacks, Because Valuations are Compressed and Growth Investments are Scarce

- Several of the large public commodity and ingredient companies, including Kerry, Tate & Lyle, Glanbia and GrainCorp have executed share buybacks to take advantage of compressed valuations and strong balance sheets
- Buybacks signify confidence to the market the business is currently being undervalued and it is an attractive current use of balance sheet capital

What it Means

With buybacks being the preferred capital allocation decision at this time it signals no other more attractive organic growth projects or actionable M&A targets for these companies.

KEY INDUSTRY TRENDS, M&A AND OTHER NEWS

► Q2 Earnings

- Of the 16 companies we track, 11 released EBITDA results above the prior year and 5 were below. Overall, EBITDA margins on average were up 5.2% in Q2 despite lackluster growth in sales
- Share prices have overall remained down in the last 3 months with only 3 of the companies showing share price growth and groups like Utz Brands, Hormel Foods, and Kraft Heinz down more than 10%

► M&A and Other Trends

- M&A and financing activity in the quarter seemed to focus on two big categories: bakery and beverage. There are almost too many deals to profile here, but it's curious to think about why. Perhaps it's the lower average selling price of those categories which is strong in this market? Could also be those categories are in need of new, better-for-you products.
- On the bakery side:
 - A couple of private equity backed businesses got together with **Engelman's Bakery** acquiring **St. Armands** of Florida
 - **Rise Baking** acquired **Table Talk Pies** and it's 3 facilities
 - **Encore Consumer** acquire **Chalet Desserts** as a frozen dessert and baked-good platform
 - **Sweetmore Bakeries** acquired **Sweet Eddie's**. Fast growing and "healthier" **Hero Bakery** raised \$21 million. **Forward Consumer** acquired **Firehook Bakery**
- For beverages:
 - **Next in Natural** acquired **Sound Brands** who makes sparkling botanical drinks
 - VC backed **Neutral Foods** merged with another grass-fed dairy brand **Zeal Creamery**. Meanwhile, **BlueTriton** and **Primo Water** merged and disclosed \$200 million of planned cost synergies. There were a ton of other beer/spirits/alcohol deals in the quarter as well
 - **Lassonde** acquired sauce maker **Summer Garden** for around 8.5x EBITDA (up to ~10x with an earnout) in an effort to drive growth, margin expansion and diversification away from beverages

KEY PUBLIC COMPANY METRICS

All Figures in USD millions unless indicated

	TEV/EBITDA			EBITDA Margin		3 Year Growth	
	TEV	2024E	2025E	Recent Quarter	LTM	EBITDA	Revenue
Mondelez	105,855	14.2x	13.6x	34.0 %	23.3 %	6.8 %	8.7 %
Kraft Heinz	58,028	9.0x	8.7x	24.4 %	24.3 %	0.5 %	0.8 %
General Mills	48,329	11.6x	11.6x	22.3 %	21.8 %	0.4 %	3.3 %
Hershey	43,386	14.2x	13.8x	36.3 %	28.3 %	9.0 %	8.5 %
Kellogg	25,881	11.6x	11.0x	15.7 %	14.2 %	3.0 %	2.7 %
McCormick	23,525	18.5x	17.4x	18.0 %	18.4 %	(0.2)%	1.9 %
Conagra	22,203	9.5x	9.2x	19.3 %	19.5 %	0.3 %	2.6 %
Hormel	19,292	13.5x	12.8x	11.2 %	10.8 %	2.5 %	2.2 %
Lamb Weston	15,218	10.2x	9.2x	20.7 %	20.9 %	31.5 %	21.3 %
Campbell Soup	20,954	11.3x	10.3x	19.5 %	19.4 %	(1.2)%	4.5 %
Post	12,581	9.3x	8.9x	15.9 %	16.0 %	16.9 %	17.1 %
TreeHouse Foods	3,314	9.1x	8.1x	5.1 %	8.5 %	23.2 %	7.1 %
Utz Brands	2,741	13.6x	12.0x	8.2 %	8.6 %	31.0 %	6.7 %
B&G Food	2,685	8.8x	8.6x	15.8 %	15.0 %	(3.3)%	(1.6)%
J&J Snack Foods	3,349	16.2x	14.3x	9.8 %	11.8 %	19.2 %	11.5 %
Mean		12.0x	11.3x	18.4%	17.4%	9.3%	6.5%

KEY INDUSTRY TRENDS, M&A AND OTHER NEWS

► Q2 Earnings

- Of the 8 companies we track, 3 released EBITDA results above the prior year and 6 were below. Overall, EBITDA margins on average were up 4.3% in Q2
- Over the past three months, share price trends have varied. Darling Ingredients' shares fell by 24% due to macro-economic headwinds, whereas International Flavors & Fragrances' shares increased by 13%, driven by solid earnings results

► M&A and Other Trends

- **Glanbia** spent \$300 million plus deferred consideration to buy US based **Flavor Producers**, with a focus on natural and organic ingredients. Transaction looks to be around 15x trailing EBITDA
- **Ventura Foods** acquired **DYMA Brands** who manufacturers bulk condiments, seasoning and blends for foodservice
- **Adventures Capital** (lead by Pruvit founders) acquired exogenous ketone leader **Pruvit Ventures** for \$107 million from Intelligent Brands (a health and wellness holding company of brands)
- **Tate & Lyle PLC** continues its portfolio refinement and evolution into more specialty, value-added ingredients through two announced transactions in the quarter. Firstly, it divested its remaining interest in corn-derived food and beverage ingredients manufacturer **Primient** for \$350 million in cash (or ~6.5x EV/LTM EBITDA) to **KPS Capital Partners, LP**. Secondly, it acquired **CP Kelco**, a manufacturer of technical food ingredients and additives (think carrageenan, citrus fiber, pectin, xanthan gum) for approximately \$1.8 billion.
- **Lesaffre**, a French fermentation and microorganism ingredient manufacturer, is acquiring the assets of DSM-Firmenich's ("DSM") yeast extract business for an undisclosed amount. The transaction bolsters Lesaffre's savory ingredients offering, includes DSM's go-to-market organization and know-how enabling Lesaffre to produce DSM's yeast extract products in Lesaffre's global manufacturing network
- **Woodland Foods**, a provider of plant-based ingredients, including herbs, spices, rice, grains and nuts, has acquired Hawthorne, NJ-based **Idan Foods**, a maker of breadings and batters, coating systems, baking mixes and seasonings.
- Leading global ingredient solutions provider, **Corbion** divests its emulsifier business to **Kingswood Capital Management LP**, a private investment firm focused on corporate carve-outs, for \$362 million (\$275 million net of transaction costs and taxes).

KEY PUBLIC COMPANY METRICS

All Figures in USD millions unless indicated

	TEV	TEV/EBITDA		EBITDA Margin		3 Year Growth	
		2024E	2025E	Recent Quarter	LTM	EBITDA	Revenue
IFF	35,449	16.8x	15.5x	16.5 %	15.6 %	5.2 %	(1.4)%
Associated British	27,481	7.5x	7.1x	12.2 %	11.5 %	21.4 %	11.2 %
Kerry	16,657	12.3x	11.3x	15.2 %	13.7 %	6.0 %	1.1 %
Darling	10,703	8.2x	6.6x	11.6 %	15.2 %	15.4 %	8.0 %
Ingredion	9,044	7.5x	7.2x	14.3 %	14.0 %	10.4 %	4.6 %
Glanbia	5,631	10.7x	10.1x	8.1 %	8.1 %	16.7 %	(6.9)%
Tate & Lyle	3,362	8.1x	7.5x	20.8 %	18.4 %	0.2 %	8.5 %
Sensient	3,956	15.5x	14.0x	17.4 %	16.2 %	5.2 %	3.4 %
Mean		10.8x	9.9x	14.5%	14.1%	10.1%	3.6%

KEY INDUSTRY TRENDS, M&A AND OTHER NEWS

► Q2 Earnings

- Of the 6 companies we track, 5 released EBITDA results above the prior year and 1 was below. Overall, EBITDA margins on average were down 0.4% in Q2
- Over the last 3 months The Simply Good Foods Company saw the largest increase in its share price, rising over 10%. Meanwhile, the other players declined on average 21% over the last 3 months

► M&A and Other Trends

- The big deal of the quarter was **Simply Good Foods** acquiring **Only What You Need** for \$280 million. The business is all about plant protein RTD beverages and our calculations imply a 2.3x revenue multiple and 13.3x run-rate and synergized EBITDA. In other words, High Growth + Plant-Based + Protein = Hot
- Healthy bar contract manufacturer **TruFood** acquired **Bar Bakers** to become a dominant player in the space, combining east coast with west coast capabilities. Diversifying across brands and focusing on protein are part of the strategy
- Healthier beverage company **Suja Life** acquired soda brand **Slice** to grow in the world of low sugar and cleaner ingredients
- It's been a tough slog for many plant-based companies to maintain growth and raised capital. However, there is money out there if values are reasonable and the business case is there, including:
 - **Tender Foods** raised \$10 million from a group of VCs at a sub \$20 million pre-money value
 - Meanwhile, **Meati** is in another league but raised over \$200 million as a series C
- To grow its lineup of products **Wicked Kitchen** used all shares to acquire plant-based sushi-grade tuna and salmon business Current Foods

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	TEV	TEV/EBITDA		EBITDA Margin		3 Year Growth	
		2024E	2025E	Recent Quarter	LTM	EBITDA	Revenue
The Simply Good Foods Company	3,739	14.0x	12.9x	20.0 %	18.9 %	10.8 %	9.8 %
The Hain Celestial Group, Inc.	1,454	9.5x	8.9x	9.3 %	7.8 %	(12.8)%	15.9 %
Beyond Meat, Inc.	1,513	neg	neg	(61.5)%	(61.2)%	(9.9)%	(4.1)%
SunOpta Inc.	1,036	11.5x	9.7x	10.4 %	10.3 %	30.5 %	(11.4)%
Whole Earth Brands, Inc.	640	7.9x	7.0x	10.1 %	10.0 %	15.4 %	12.2 %
Lifeway Foods, Inc.	166	7.8x	5.9x	9.8 %	13.4 %	39.4 %	5.4 %
Mean		10.1x	8.9x	-0.3%	-0.1%	12.2%	4.6%



KEY INDUSTRY TRENDS, M&A AND OTHER NEWS

► Q2 Earnings

- Of the 9 companies we track, 6 released EBITDA results above the prior year and 3 were below. Overall, EBITDA margins on average were up 12.7% in Q2
- Canadian food stocks have done great as of late. All the companies we track below are either neutral or up over the last 3 months, with an average share price increase of 4%

► M&A and Other Trends

- **Commercial Bakeries** (owned by Graham Partners) acquired **Imagine Baking** to expand in the US. The businesses are focused on better-for-you, organic and gluten-free kind of baking
- **Maple Leaf** is splitting its business into two separately public companies. One will be focused on the pork (\$72 million of their EBITDA) business and the other CPG products (nearly \$400 million of EBITDA)
- It's a tough market out there for small Canadian food businesses who want to get to the next level, but capital is available and good, promising companies seem to find it. A couple high growth brands including **Mushrom** raised over \$2 million while **Oatbox** recently raised \$5 million
- **Above Food** acquired high-fiber brand **GoodWheat** for \$4 million. Meanwhile, Above Food has merged with a SPAC and has started trading on the NASDAQ
- **LQR House** acquired an 8.6% stake in Vancouver based **DRNK Beverages** for \$4.8 million
- In more beverage news **ACE Beverage** (owned by Corby) acquired **Nude** and certain assets of **MXM Beverages** for \$11 million.
- Meanwhile in more bakery news this time in Quebec, **Farinart** acquired **Malterie Frontenac** which primarily processes barley, wheat, rye and oats

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	TEV	TEV/EBITDA		EBITDA Margin		3 Year Growth	
		2024E	2025E	Recent Quarter	LTM	EBITDA	Revenue
Saputo	12,542	11.4x	9.9x	5.3 %	7.9 %	0.2 %	3.6 %
Premium Brands	5,077	10.9x	9.8x	5.5 %	6.3 %	21.0 %	8.4 %
Maple Leaf Foods	3,625	9.0x	7.4x	15.7 %	8.2 %	16.7 %	0.7 %
Lassonde	971	5.4x	4.7x	8.7 %	8.7 %	9.9 %	6.7 %
Rogers Sugar	807	8.2x	8.0x	10.1 %	10.3 %	5.0 %	8.2 %
High Liner	535	5.6x	5.2x	11.7 %	8.6 %	7.2 %	2.8 %
Andrew Peller	300	13.2x	8.1x	(3.0)%	8.4 %	(7.8)%	(3.0)%
Corby Spirit and Wine	346	n.a.	n.a.	26.3 %	24.4 %	n.a.	n.a.
Swiss Water	100	13.1x	n.a.	6.7 %	6.9 %	n.a.	n.a.
Mean		9.6x	7.6x	9.7%	10.0%	7.5%	3.9%

ABOUT US

Origin Merchant Partners is a leading Independent North American Financial Advisor to the Food & Agriculture Sector.

To learn more about our active food & agriculture practice, please reach out to any of our team members below.

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